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SUBJECT: IAEA BUDGET: BOARD VICE CHAIR PROBES ON U.S. AMBITIONS

REF: A. UNVIE 65; B. UNVIE 57; C. UNVIE 52

¶1. (SBU) Summary: The Romanian Ambassador, vice chairman of the IAEA Board and in charge of budget negotiations, pointedly asked Ambassador Schulte on March 20 whether the U.S. position on the IAEA budget would reflect U.S. campaign promises. Ambassador replied that Washington was looking closely at options that ranged from the traditional, zero real growth (ZRG) position to a "doubling" of the IAEA budget, with the Secretariat's proposal as one of the intermediate options. Feruta was frustrated over an early rush by EU countries - particularly France - to lock in an inflexible, ZRG position. In a separate conversation, the Japanese Ambassador revealed that Japan was looking at a similar range of options from ZRG upwards, and that G-8 consensus would be key to Japan's support for a large, one-time budget increase. Mission notes that Japan's uncommonly flexible position on the budget supports our observation that budget negotiations in Vienna are entering uncommon ground. Combined with ElBaradei's bold proposals to increase the Regular Budget, the U.S. enjoys a rare opportunity to pursue longstanding policy objectives to combat nuclear terrorism and advance practices for safe and responsible nuclear power worldwide. End Summary.

¶2. (SBU) Romanian Ambassador and Vice Chair of the Board of Governors Cornel Feruta launched consultations last week with IAEA Member States on DG ElBaradei's proposed 24 percent increase in the Regular Budget. As coordinator for budget negotiations among the 35-member Board, Feruta pressed for an early meeting with the U.S. to assess the U.S. position. In a meeting with Ambassador Schulte on March 20, Feruta pointedly asked how U.S. presidential campaign promises would be reflected in the U.S. position.

¶3. (SBU) Ambassador explained that the U.S. was exploring a number of options that ranged from Zero Real Growth (ZRG) to a "doubling" of the IAEA budget, with the Secretariat's proposal as one of the intermediate options. He noted that Member States enjoyed a rare opportunity to resource the IAEA properly to carry out its duties in safeguards, security and safety. He recognized that the Regular Budget was the best vehicle for sharing these responsibilities among all Member States and providing for the institutional health of the Agency. He urged Feruta to encourage other major contributors to remain flexible during this first round of budget negotiations.

¶4. (SBU) Aside from his role as budget coordinator, Feruta has been privy to internal negotiations among EU countries. He indicated his frustration with an EU rush to establish a common ZRG position. Having read past EU statements, Feruta objected to European efforts to cement a ZRG position, when in fact it was now time for them to "put their money where their mouth is." During an EU meeting March 13, Feruta told his EU counterparts that it was hypocritical to call for regularized funding of nuclear security and then ignore an opportunity to implement it. According to Feruta, Germany and

Finland found these arguments compelling, while France remained obstinate. Feruta promised to continue lobbying for flexibility and keep the U.S. informed of developments in the EU and G-77 positions.

(Note: Egyptian Second Secretary Bassem Hassan told Msnoff that the G-77 had started work last week on a common budget position that ranged higher than - but did not rule out - ZRG. End note.)

¶5. (SBU) Feruta said he had personally looked closely at the programs targeted for increases. He emphasized that ElBaradei's proposal was essentially "an investment in the future" that addressed the IAEA's laboratory needs, support for nuclear security, capital investment and support for safeguards. He singled out the issue of nuclear security, claiming that continuing to fund the program with extrabudgetary funds falsely implied the issue was not an IAEA core activity.

¶6. (SBU) Feruta ends the first round of formal budget consultations on April 3. From there he will communicate the results to Board Chair Taous Feroukhi (Algeria), indicating the areas of consonance and dissonance. Feruta would like to see budget negotiations settled at the April 27 meeting of the Program and Budget Committee (PBC) but acknowledged that negotiations would more likely drag on through the summer. Speaking separately to DCM on March 23, IAEA Deputy Director General David Waller expressed concern about the initial results of Feruta's consultations, noting that the Secretariat was concerned about an EU veto of a long overdue debate over IAEA resources.

Japanese Quietly Exploring Options

¶7. (SBU) In a separate conversation, Japanese Ambassador (and DG candidate) Yukiya Amano told Ambassador that the Japanese were working on a position that included ZRG as one of several options. Amano also noted that a one-time increase endorsed by the G-8 would be easier for Tokyo to accept than incremental increases over several budget cycles. Amano also suggested that attempts to move nuclear security under the umbrella of the Regular Budget would require Technical Cooperation concessions for the G-77 Members (who have long agitated for greater Regular Budget support for the Technical Cooperation Fund).

Comment

¶8. (SBU) Ambassador Feruta claimed he did not want the job of coordinating budget negotiations among Member States but appears well poised to do so. He has already demonstrated a creative approach by actively working to stymie French efforts to establish a common EU position around ZRG. Mission recommends using available fora at higher levels to encourage flexibility from our local French counterparts. Similarly, Mission notes that strong G-8 consensus would be of particular use to Japan, a traditional ZRG hawk that might appreciate a convenient vehicle for relinquishing ZRG in favor of a more expansive position at a time it hopes to launch a potential Japanese DG into a successful tenure. It is unusual but encouraging that Japan would look beyond ZRG and join the U.S. in exploring ways to "right size" the IAEA (Japan and the U.S. together account for nearly half the IAEA Regular Budget). Japan's flexibility also presents further evidence that we are facing a unique confluence of events in Vienna this budget season, characterized by Japanese magnanimity, ElBaradei's boldness, G-77 quiescence, and signs of a growing consensus among global leaders on the need to invest in the IAEA's future and strengthen its foundations. End Comment.

SCHULTE